

AR31



PAGE PETROLEUM LTD
1974 annual report

CORPORATE PROFILE

Page Petroleum Ltd. was incorporated in Alberta on August 13, 1971, following the amalgamation of Berkley Oil and Gas Ltd. and Canadian Fortune Oil Ltd.

The Company has continued and expanded the operation of its predecessor companies acquiring oil and gas reserves through exploration, development and purchase. Its income derives mainly from oil and gas production and the sale of interests in exploration projects. It has 12 employees, 10 in Calgary and 2 in Amarillo, Texas.

Page operates primarily in Alberta with emphasis on exploration for shallow gas. In 1973, the Company expanded its operations into the United States. Its principal producing properties are in the Mitsue field of Alberta and the Spraberry trend of West Texas. It is also exploring its holdings in the United Kingdom and surrounding waters.

Page's 1,408,486 outstanding common shares are held by 1,217 shareholders with Canadian individuals and corporations holding over 65%. It also has \$436,000 of convertible debentures outstanding, owned almost entirely in Canada. To date, the Company has declared no dividends, having retained all earnings for further exploration and development.

RANGE OF MARKET PRICES ON COMMON SHARES:

	Year	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
		High	Low	High	Low	High	Low	High	Low
Toronto	1973	3.50	2.60	2.40	2.00	3.90	2.40	4.20	3.30
Stock Exchange	1974	3.90	3.40	3.45	1.60	1.98	0.95	1.60	0.90

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL

	1974	1973
Gross Income	\$ 673,913	\$ 455,783
Sales of Oil and Gas	\$ 526,117	\$ 367,732
Drilling Arrangements	\$ 139,069	\$ 73,886
Net Earnings	\$ 74,892	\$ 51,239
Per Common Share	\$.05	\$.04
Funds Generated From Operations	\$ 351,523	\$ 177,619
Working Capital (Deficiency) December 31	\$ 17,128	\$ (109,232)
Long Term Debt	\$1,363,900	\$ 887,500
Common Shares Outstanding at Year End	1,408,486	1,380,718

OPERATING

	1974	1973
Gross Oil Production (barrels)	141,369	142,678
Per Day	387	391
Net Oil Production (barrels)	79,956	103,122
Per Day	219	283
Gross Gas Production (MCF)	103,000	81,992
Per Day	282	225
Net Gas Production (MCF)	74,000	67,000
Per Day	203	184
Net Oil Reserves After Royalties Proven and Probable (barrels)	1,970,000	2,791,000
Net Gas Reserves After Royalties Proven and Probable (MCF)	3,180,000	2,540,000
Land Holdings		
Gross Acres	5,137,878	4,891,706
Net Acres	621,785	621,632

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TO THE SHAREHOLDERS:

We are pleased to present the fourth annual report for Page Petroleum Ltd. The Company is incorporated in Alberta and trades on the Toronto Stock Exchange and on the over-the-counter market in the United States. It operates in the United States through Page Petroleum Inc. and in the United Kingdom through Page Petroleum (U.K.) Limited, both wholly owned subsidiaries.

Gross operating income in 1974 increased 48% to \$673,913 from \$455,783 in 1973. Funds generated from operations were \$351,523 compared with \$177,619, an increase of 98%. Net oil and gas income increased 43% to \$526,117 from \$367,732. The Company's net earnings after provision for deferred income taxes totalled \$74,892 or 5 cents per share compared with 4 cents per share in 1973.

The scheduled sale of a \$1.25 million convertible debenture issue in May 1974 was cancelled because of the uncertainty in the Canadian oil industry and the general stock-market decline. To provide funds for current and planned projects, Page is selling its interests in the West Rapdan Unit in Saskatchewan and other low-return and undeveloped leases.

Page participated in the drilling of 21 wells in 1974, of which 3 were completed as oil wells and 1 was completed as a gas well. Two wells were drilling at year end. The gas well, Miami Amoco Clear R. 11-2-88-11 W6M, may be a significant discovery. Further development drilling will be needed to determine the extent of the productive area. Page and partners hold 6,400 acres in the immediate vicinity. As the lands are nine miles from the nearest pipeline, it is doubtful that production would begin before 1976. Page has a 25% interest in the project.

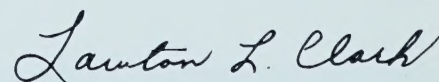
The Company is actively acquiring leases on a number of prospects in Alberta and will participate in five to ten exploratory wells there in 1975. Our emphasis is on exploration for gas.

In England, Shell U.K. Limited will soon start drilling a deep test on a 213,000-acre block wholly owned by Page. The well will be drilled on an attractive seismic structure in the deep, relatively undrilled Worcester Basin. This project could be the most significant exploratory venture in the Company's history.

Page continues to be active in the United States, and during the year acquired leases or mineral interests on several prospects. In West Texas, production from our Spraberry leases was considerably under potential, due almost entirely to shortages of tubular goods and equipment, and subsequent delays in getting the wells placed on production. It now appears that production during 1975 will approach our earlier forecasts and will contribute substantially to Page's oil and gas income.

Our operations in Canada during 1974 were frustrated by burdensome federal and provincial legislation. As a result, we are phasing out our Saskatchewan operations and have cancelled all plans to operate in British Columbia. By year end the situation in Alberta had improved to the point where we could again justify an active exploration program there. We are hoping that this year will bring an oil price increase and some easing of oil taxation — both of which are needed to assure the discovery of adequate energy reserves for the future.

Submitted on behalf of the Board of Directors:



President

April 2, 1975

EXPLORATION AND DEVELOPMENT

During 1974 Page participated in eleven wells in Canada, eight in the United States and two in England. The Company also participated in two geophysical programs, and acquired additional leases in several areas of Canada and the United States.

WESTERN CANADA

Page participated in eight wells in western Canada in 1974, resulting in one gas completion and seven dry holes. The most significant result of the exploration program was a gas discovery, Miami Amoco Clear R. 11-2-88-11 W6M, drilled on 6,400 acres of Page-owned lands in northwestern Alberta. Page has a 25% interest in the project. Until lease selections are completed later in 1975 no further details on the well will be released.

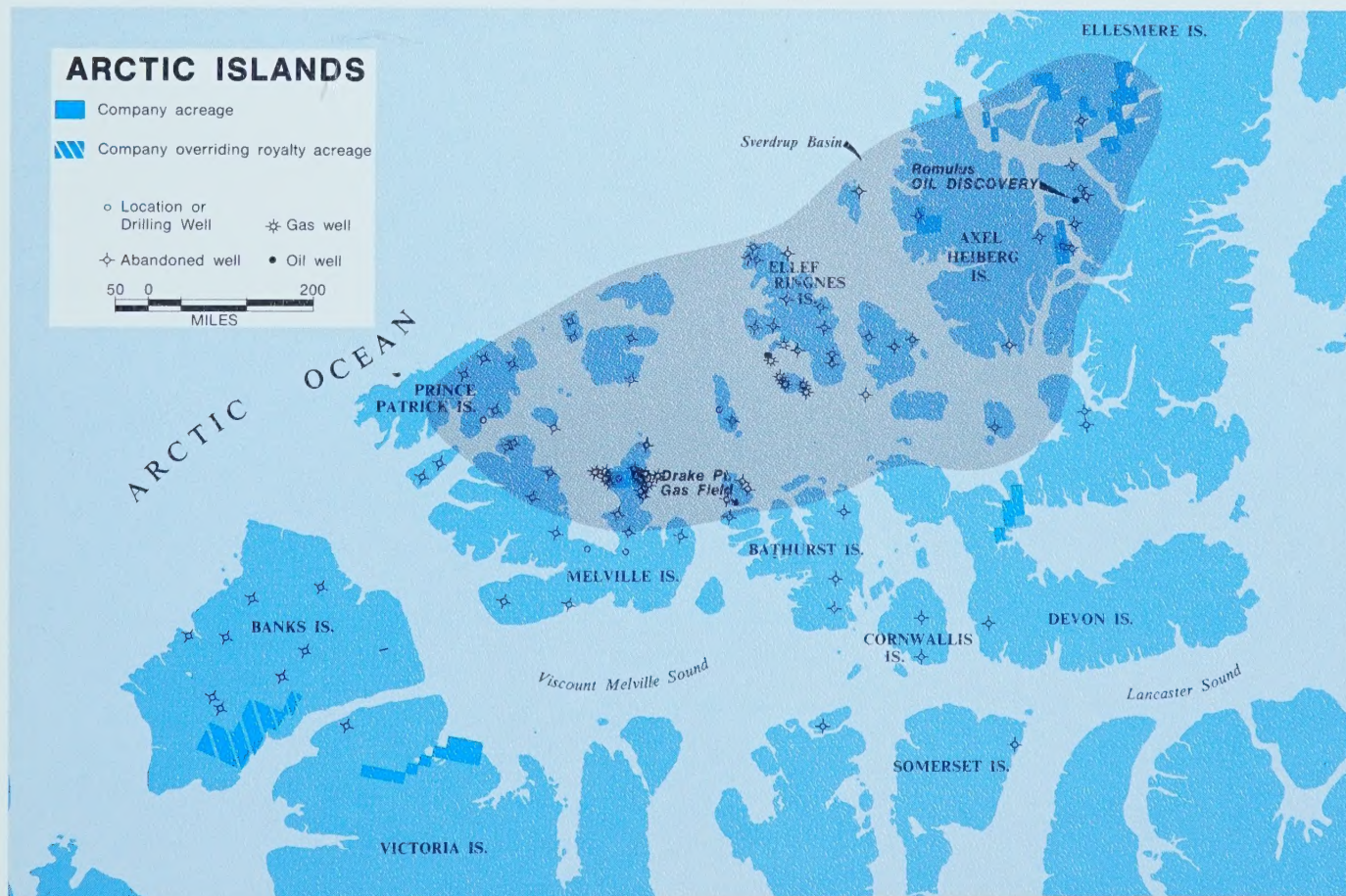
Shut-in gas wells at Mitsue and Chisholm in Alberta, drilled in previous years, underwent

production tests late in 1974. Initial flow tests indicated good producing characteristics, and plans are under way to place these properties on stream by the end of 1975.

CANADIAN ARCTIC ISLANDS

Page participated in three wells in the Arctic during the year. Horn River et al Middle Fiord K-52, on Axel Heiberg Island, was abandoned early in 1974 at a depth of 6,526 feet. Panarctic et al Drake Point D-68 on Melville Island, the deepest well in the Arctic at 17,766 feet, was abandoned when production tests proved noncommercial. Panarctic Chads Creek B-64, in the Drake Point area, was drilling at year end on lands farmed out by Page and others.

Work commitments on 75% of Page's Arctic permits have now been met. Much of the remaining acreage will be dropped during 1975.



UNITED KINGDOM AND IRELAND

Page operates in the United Kingdom and its offshore waters through a wholly owned subsidiary, Page Petroleum (U.K.) Limited. The Company's holdings, unchanged during 1974, consist of interests in 1,302,100 acres of production licences in the following areas:

	Blocks	Gross Acres	Page Working Interest
Onshore:			
Southwestern England	Lic. 128	110,700	10%
	(1) Lic. 129	113,900	10%
	Lic. 130	111,200	100%
	(2) Lic. 131	101,800	100%
Offshore:			
North Sea	43/13b, 43/17b,		
	(3) 43/18b	91,500	53-1/3%
	(4) 29/8b, 29/9b	50,500	3%
West Shetland	166/20, 202/11,		
	(5) 202/16, 203/3	207,400	3%
Celtic Sea	92/14, 92/15, 93/8,		
	(6) 93/12, 93/13, 102/20, 103/11, 103/16	515,100	3%

Onshore in Wiltshire (2), the Company has farmed out its wholly owned 213,000-acre block to Shell U.K. Limited. Shell has completed detailed seismic, gravity and magnetic surveys of the area and has committed to drill a deep test on a large seismic structure in the relatively undrilled Worcester Basin. This basin, which has oil seeps along its northwestern boundary, is expected to contain thick sandstone reservoirs. Page will retain a 23% working interest in the project. The initial well is expected to start drilling by mid-1975.

In Dorset (1), two wells drilled in 1973 and 1974 on Page's holdings, and one well drilled nearby, found no indications of petroleum. Page does not plan further exploration in this area.

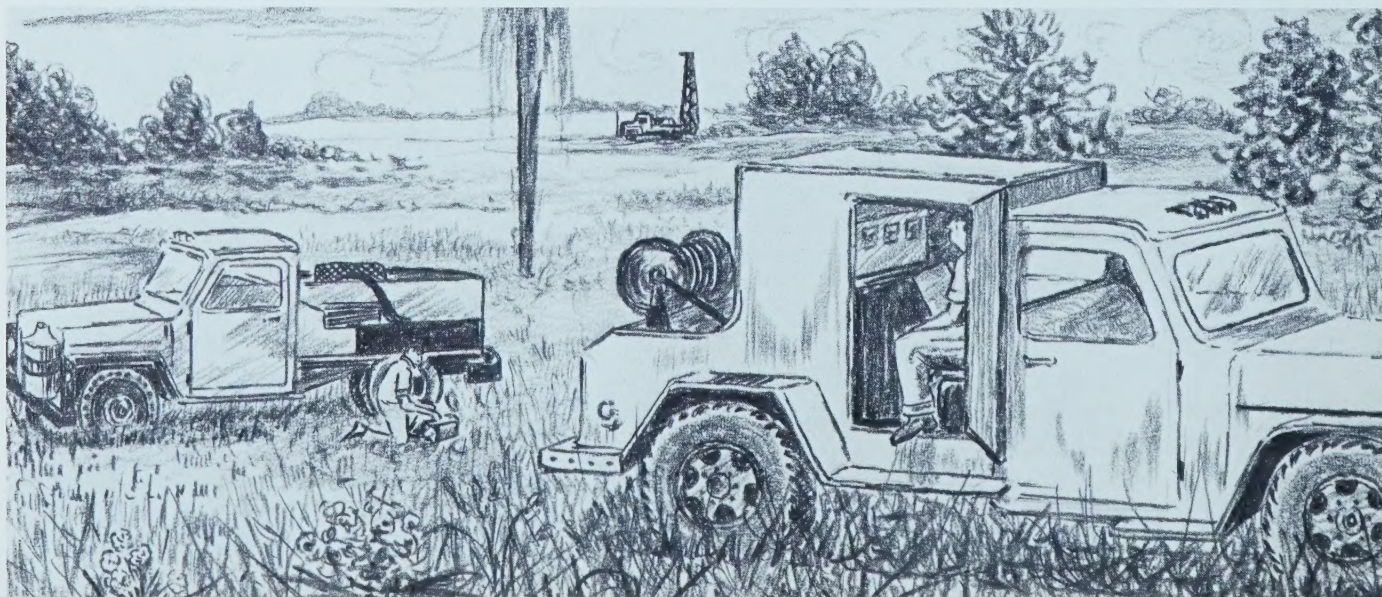
In the southern North Sea (3), additional geophysical data obtained through trade and purchase indicate that the principal structure on our licence in Block 43 is unlikely to contain enough gas to warrant drilling.

Further north (4), seismic data interpreted during the year indicate promising structures. It is likely that a well will be drilled on or near our holdings within the next two years.

West of the Shetlands (5), Page and partners granted a seismic option to British Petroleum. BP did not exercise its option to drill a well. It is unlikely that our group will carry out further exploration in this area.

In the Celtic Sea (6), several exploratory wells have been drilled by others but no information regarding them has been released. Our holdings are 70 miles east of the Kinsale Head gas field, which is in Irish waters.

Page has a 6.25% interest in a consortium of Irish, Canadian and American companies formed to explore for oil and gas on the Irish Continental Shelf (7). The government of Ireland has not yet announced when it will accept applications for offshore licences. Competition for these rights is expected to be keen.





Page operates in the U.S. through Page Petroleum Inc., a wholly owned subsidiary with headquarters in Amarillo, Texas. The Company participated in eight wells in the United States in 1974, resulting in four oil wells and four dry holes.

Two 8,000-foot exploratory wells were drilled on our John's Creek prospect in Hansford County, Texas. One was a dry hole and the other, an attempted completion, was subsequently abandoned. Page was carried cost-free for a 25% interest in the acreage, and the two wells drilled to casing point. The 11,000-acre lease block is thought to have further potential.

The final two wells of a 15-well development project on the Spraberry trend in West Texas were drilled early in 1974. Equipment and tubing shortages in the United States delayed completion of several wells in the project until late 1974 and early 1975.

Page entered into a second and larger Spraberry project in October 1974 by committing for a 12½% interest in a 53-well development program. By year end one well had been drilled and was awaiting completion as an oil well. Early in 1975, however, it became apparent that Page's interest in the project should be reduced to free funds needed for lease purchases and drilling on other prospects. Accordingly, Page is selling at least half of its interest at cost but will still retain a 20% reversionary interest in the portion sold.

Two deep wells drilled by others on royalty interests owned by Page in the Delaware Basin of West Texas were dry and abandoned. In both cases there will be further drilling on or offsetting our holdings.

In Kansas, Page acquired a 10% interest in 1,840 acres of leases in Meade County. An offsetting well drilled by others was abandoned and these leases will probably be surrendered. The Company has purchased 960 lease acres on a shallow-gas prospect in Pratt County.

In Louisiana, Page participated for a 2½% interest in two unsuccessful 8,000-foot tests in Calcasieu Parish. At west Napoleonville dome in Assumption Parish, Page is farming out its 25% interest in 620 acres.

The Company continues to hold a 12½% interest in applications for 236,194 acres of federal leases. These applications, held since 1970, are awaiting settlement of a federal and state ownership dispute.

Overriding royalty interests of 0.75% are held by the Company under two permits in the Adriatic Sea. The operators conducted a seismic survey on one permit during 1974. A recent oil discovery in the vicinity of this permit had rekindled interest in the area.



LAND

At year end, the Company had an interest in 5,137,878 gross acres as summarized below:

	Working Interest		Royalty Interest
	(Gross Acres)	(Net Acres)	(Gross Acres)
Western Canada	76,485	24,736	49,734
Arctic Islands	2,517,406	255,455	903,517
Alaska	236,194	29,524	—
United States	17,966	4,620	2,560
United Kingdom (Onshore)	437,613	235,461	—
United Kingdom (Offshore)	864,569	71,989	—
Italian Adriatic	—	—	31,834
	<u>4,150,233</u>	<u>621,785</u>	<u>987,645</u>

PRODUCTION AND RESERVES

During 1974 the provincial royalty and the federal taxation policies were revised several times. With each revision the Company's net recoverable reserves and net production changed markedly.

Production rates too fluctuated through the year, as a result of market reaction to the federal export tax and the restriction of oil exports.

PRODUCTION	1974	1973
Oil — Gross (barrels)	141,369	142,678
Net (barrels)	79,956	103,122
Gas — Gross (Mcf)	103,000	82,000
Net (Mcf)	74,000	67,000

RESERVES	Jan. 1, 1975		Jan. 1, 1974	
	Gross	Net*	Gross	Net*
Oil — (barrels)				
proven developed	2,585,000	1,513,000	2,726,000	1,593,000
probable	797,000	457,000	797,000	593,000
Total Oil	3,382,000	1,970,000	3,523,000	2,186,000
Gas — (MMcf)				
proven developed	3,317	2,374	2,773	2,030
probable	1,223	806	500	337
Total Gas	4,510	3,180	3,273	2,367

* Net reserves reflect royalties in effect on January 1 of each year.

CONSOLIDATED BALANCE SHEETS

December 31, 1974 and 1973

ASSETS

CURRENT ASSETS

Cash	\$ 28,252	\$ 38,189
Marketable securities, at lower of cost or market price (cost \$16,326, 1973 — \$16,326)	10,709	14,701
Accounts receivable	175,131	473,649
Provincial explorer's credit receivable	61,000	—
Inventory, at cost	71,413	7,009
Prepaid expenses	6,700	9,818

353,205

543,366

PROPERTY, PLANT AND EQUIPMENT — NET (Notes 1 and 3) . . .

2,938,691

2,301,835

OTHER ASSETS

Drilling and exploration deposits	33,704	50,991
Unamortized deferred financing charges (Note 1)	40,597	55,922
Investment in limited partnership (Note 2)	35,780	33,275

110,081

140,188

Approved on behalf of the Board,

LAWTON L. CLARK, Director

C. D. GOULD, Director

See notes to consolidated financial statements.

\$3,401,977

\$2,985,389

AUDITORS' REPORT

To the Shareholders
Page Petroleum Ltd.

We have examined the consolidated balance sheets of Page Petroleum Ltd. and subsidiary companies as at December 31, 1974 and 1973 and the consolidated statements of income and retained earnings and changes in financial position for the two years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

	1974	1973
LIABILITIES		
CURRENT LIABILITIES		
Bank operating loan, secured (Note 4)	\$ 60,000	\$ —
Accounts payable and accrued liabilities	123,677	562,598
Current portion of long term debt	152,400	90,000
	<u>336,077</u>	<u>652,598</u>
LONG TERM DEBT		
Bank production loan, secured (Note 4)	1,080,300	482,500
Less: Portion due within one year	152,400	90,000
	<u>927,900</u>	<u>392,500</u>
7% convertible subordinated debentures (Note 5)	436,000	495,000
	<u>1,363,900</u>	<u>887,500</u>
Deferred income taxes (Note 1)	194,370	89,553
	<u>194,370</u>	<u>89,553</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 8)		
Authorized		
5,000,000 common shares without par value		
Issued		
1,408,486 shares (1,380,718 shares in 1973)	1,279,847	1,209,927
Less: Unpaid subscriptions	155,086	162,166
	<u>1,124,761</u>	<u>1,047,761</u>
Contributed surplus	250,311	250,311
Retained earnings	132,558	57,666
	<u>1,507,630</u>	<u>1,355,738</u>
	<u>\$3,401,977</u>	<u>\$2,985,389</u>

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and 1973 and the results of their operations and changes in their financial position for the two years then ended, in accordance with generally accepted accounting principles applied on a consistent basis except for the change in the amortization of costs incurred in Northwestern Europe as outlined in Note 1(b).

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 1974 and 1973

	1974	1973
INCOME		
Oil and gas sales, net of royalties	\$526,117	\$367,732
Drilling arrangements and other fees	139,069	73,886
Investment and other income	8,727	14,165
	673,913	455,783
EXPENSES		
Production	49,980	46,605
General and administrative	197,175	197,586
Interest (Note 10)	136,235	33,568
Depreciation	14,216	16,414
Depletion	113,812	81,218
Amortization of foreign exploration costs	28,461	—
Amortization of deferred financing charges	15,325	4,782
	555,204	380,173
INCOME BEFORE INCOME TAXES	118,709	75,610
INCOME TAXES (Note 6)		
Deferred	104,817	24,731
Provincial explorers' credit	(61,000)	—
	43,817	24,371
NET INCOME FOR THE YEAR	\$ 74,892	\$ 51,239
NET INCOME PER SHARE (Note 1)	\$.05	\$.04

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years Ended December 31, 1974 and 1973

	1974	1973
Retained earnings, beginning of year	\$ 57,666	\$ 71,609
Retroactive adjustment in respect to provision for deferred income taxes	—	(65,182)
As restated	57,666	6,427
Net income	74,892	51,239
Retained earnings, end of year	\$132,558	\$ 57,666

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1974 and 1973

	1974	1973
SOURCE OF FUNDS		
Net income	\$ 74,892	\$ 51,239
Charges (credits) to income not involving funds:		
Depreciation, depletion and amortization	171,814	102,414
Deferred income taxes	104,817	24,371
Other	—	(405)
Funds generated from operations	351,523	177,619
Sale of convertible debentures	—	500,000
Issuance of capital stock	69,920	91,040
Increase in production loans — net of repayments	535,400	234,500
Increase (decrease) in drilling and exploration deposits	17,287	(17,700)
Decrease in subscriptions receivable, net	7,080	—
Total source of funds	981,210	985,459
APPLICATION OF FUNDS		
Additions to property, plant and equipment	793,345	1,132,783
Investment in limited partnership	2,505	5,590
Deferred financing charges	—	60,704
Redemption of convertible debentures	59,000	5,000
Total application of funds	854,850	1,204,077
Increase (decrease) in working capital	126,360	(218,618)
Working capital (deficiency), beginning of year	(109,232)	109,386
Working capital (deficiency), end of year	\$ 17,128	\$(109,232)
WORKING CAPITAL CHANGES		
Increase (decrease) in current assets		
Cash	\$ (9,937)	\$ 9,477
Marketable securities	(3,992)	(15,112)
Accounts receivable	(298,518)	90,146
Income taxes recoverable — Provincial	61,000	—
Inventories	64,404	7,009
Prepaid expenses	(3,118)	6,923
Increase (decrease) in current liabilities	(190,161)	98,443
Bank operating loan	60,000	(75,000)
Accounts payable and accrued liabilities	(438,921)	327,261
Current portion of long term debt	62,400	64,800
Increase (decrease) in working capital	(316,521)	317,061
Increase (decrease) in working capital	\$ 126,360	\$(218,618)

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1974 and 1973

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Page Petroleum Ltd. and its wholly owned subsidiaries. Where the purchase price of shares of subsidiaries exceeded their net book values the excess has been allocated to the related assets acquired and additional depreciation has been provided accordingly. All intercompany transactions have been eliminated on consolidation.

(b) Full cost method of accounting

The Company follows the full cost method of accounting for its operations wherein all costs relative to the exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenditures, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells and administrative expenses related to exploration and development activities. Proceeds on disposal of properties are ordinarily deducted from accumulated costs without recognition of profit or loss. Exploration and development costs are accumulated in two major cost centers:

- 1.. North America — Canada and the United States
2. Northwestern Europe — United Kingdom and the North Sea

Costs associated with the North American cost center are depleted using the unit of production method based on estimated recoverable North American reserves as determined by independent and company engineers.

Effective January 1, 1974 costs associated with the Northwestern Europe cost center are being amortized on a straight-line basis at the rate of 20%. Should exploratory efforts be successful, the balance of unamortized exploration costs will be carried forward and combined with subsequent exploration and development costs incurred and will be depleted on the unit of production method. If all of the exploratory rights are surrendered, the balance of the unamortized exploration costs will be charged to income (included in amortization). At December 31, 1974, costs remaining to be amortized amounted to \$113,846. This change in accounting policy resulted in net income for the current year being reduced by \$28,461.

(c) Depreciation

Depreciation of production equipment is also provided for on the unit of production method. Depreciation of sundry equipment is computed on the diminishing balance method at rates of 20% and 30%.

Maintenance and repairs are charged to income as incurred and major renewals and betterments are capitalized.

(d) Income taxes

The companies follow the tax allocation method of accounting for all timing differences between taxable income and recorded income including differences relative to exploration and development expenditures. Under this method, provisions for deferred income taxes are made currently on the excess of deductions claimed for tax purposes over the related depletion, depreciation and other charges recorded in the accounts on the premise that such taxes will become payable in future years when recorded charges exceed the amounts available for tax purposes.

(e) Net income per share

Net income per share is based on the weighted average number of shares outstanding during the year which for 1974 was 1,405,777 (1973 — 1,344,191). The conversion of the 7% convertible debentures would not be dilutive.

(f) Unamortized deferred financing charges

Deferred financing charges of \$60,704 associated with the issuance of the 7% convertible debentures are being amortized on a straight-line basis over the term of the debenture issue. To December 31, 1974, \$20,107 has been charged to income (1974 — \$15,325, 1973 — \$4,782).

2. LIMITED PARTNERSHIP

The Company is the sole general partner of Berkley '71 Company, a limited partnership formed pursuant to the laws of the Province of Alberta, Canada, for the purpose of exploring for oil and gas.

The limited partnership agreement provides that the Company, as general partner, is required to pay all of the tangible costs on initial wells and up to 30% of all other costs incurred on subsequent wells.

Income from producing wells and proceeds from the sale of properties will be credited 70% to the limited partners and 30% to the Company, as general partner.

The Company's investment in the limited partnership is reflected on the equity basis.

3. PROPERTY, PLANT AND EQUIPMENT

	<u>Assets, at cost</u>	<u>Accumulated depletion, depreciation and amortization</u>	<u>Net investment</u>
December 31, 1974			
Petroleum and natural gas leases and rights, including exploration and development costs thereon			
North America			
Canada	\$2,288,399	\$398,854	\$1,889,545
United States	774,088	15,475	758,613
	<u>3,062,487</u>	<u>414,329</u>	<u>2,648,158</u>
Northwestern Europe	142,307	28,461	113,846
	<u>3,204,794</u>	<u>442,790</u>	<u>2,762,004</u>
Production equipment	242,057	105,680	136,377
Sundry	85,432	45,122	40,310
Total December 31, 1974	<u>\$3,532,283</u>	<u>\$593,592</u>	<u>\$2,938,691</u>
December 31, 1973			
Petroleum and natural gas leases and rights, including exploration and development costs thereon			
North America			
Canada	\$1,925,887	\$300,517	\$1,625,370
United States	381,480	—	381,480
	<u>2,307,367</u>	<u>300,517</u>	<u>2,006,850</u>
Northwestern Europe	118,751	—	118,751
	<u>2,426,118</u>	<u>300,517</u>	<u>2,125,601</u>
Production equipment	229,258	99,035	130,223
Sundry	83,562	37,551	46,011
Total December 31, 1973	<u>\$2,738,938</u>	<u>\$437,103</u>	<u>\$2,301,835</u>

4. BANK LOANS

	<u>1974</u>	<u>1973</u>
Operating loan, current	\$ 60,000	\$ —
Production loan	<u>1,080,300</u>	<u>482,500</u>
	<u>\$1,140,300</u>	<u>\$482,500</u>

The bank loans are secured by a general assignment of accounts receivable and certain specific oil and gas properties. The production loan is repayable from proceeds of production in monthly installments of approximately \$12,700.

5. 7% CONVERTIBLE SUBORDINATED DEBENTURES DUE AUGUST 1, 1979

The debentures are secured by way of a floating charge in favour of the trustee on all of the Company's assets and undertakings.

The indebtedness evidenced by the debentures is subordinate to the prior payment in full of the senior indebtedness of the Company which at December 31, 1974 was comprised of the bank operating and production loans.

The debentures are convertible into common shares of the Company at the following prices:

\$2.50 per share — August 1, 1973 — August 1, 1977

3.25 per share — August 2, 1977 — August 1, 1978

4.00 per share — August 2, 1978 — August 1, 1979

Sinking fund payment requirements on the debentures during the next four years are as follows: 1975 — Nil; 1976 — \$125,000; 1977 — \$125,000; 1978 — \$125,000.

6. INCOME TAXES

On November 18, 1974 the Canadian government introduced budgetary proposals to amend the Income Tax Act. These included a number of changes, several having retroactive effect to the date of an earlier budget on May 6, 1974, that will substantially increase the income taxes of the resource industries. The proposals, among other measures, deny the deduction of royalties and similar payments to governments and impose limitations on the deduction of certain development expenses and on depletion allowances. The effect of the foregoing is partially offset by a reduction in the federal rate of income tax applicable to resource production profits. In addition, the provinces of Alberta and Saskatchewan have subsequently announced proposals for tax rebates and certain other credits to provide some measure of relief from the additional federal tax levies. Although the federal and provincial legislative amendments have not yet been enacted, the 1974 income tax provision has been computed on the basis of taking them into account on the best information available.

7. COMMITMENTS AND GUARANTEES

The companies are committed for work performance on certain oil and gas exploratory permits in the amount of \$18,176 (1973 — \$38,422). These commitments are secured by notes issued by the companies and guaranteed by their bankers.

8. CAPITAL STOCK

(a) Issued capital stock of the Company consists of the following:

	Number of shares	Stated value
Balance, December 31, 1972	1,272,053	\$ 956,721
Exercise of stock options for cash	24,166	56,040
Exercise of stock options for notes	37,499	102,166
Share purchase agreement	45,000	90,000
Conversion of 7% convertible subordinated debentures	2,000	5,000
Balance, December 31, 1973	1,380,718	1,209,927
Exercise of stock option for notes	4,168	10,920
Conversion of 7% convertible subordinated debentures	23,600	59,000
Balance, December 31, 1974	<u>1,408,486</u>	<u>\$1,279,847</u>

(b) Unpaid subscriptions consist of the following:

	December 31	
	1974	1973
On May 26, 1973 the Company and a senior officer entered into a share purchase agreement for 45,000 shares at \$2.00 per share. If the payments are not made the Company's right is limited to cancellation of the unpaid shares. The Company has extended the repayment terms by one year		
Balance outstanding	\$ 60,000	\$ 60,000
To enable senior officers to exercise their stock options in 1973 and 1974, the Company loaned them the necessary funds on 4% promissory notes repayable in five annual installments		
Balance outstanding	95,086	102,166
	<u>\$155,086</u>	<u>\$162,166</u>

(c) Outstanding stock option and debenture conversion privileges at December 31, 1974.

1. Stock option
32,501 shares (1973 — 36,669 shares) ranging in exercise price from \$2.60 to \$3.45 per share expiring in periods from August 19, 1974 to July 23, 1976.
2. Conversion of 7% convertible subordinated debentures
174,400 shares (1973 — 198,000 shares) at \$2.50 per share expiring August 1, 1977 (note 5).

9. EXECUTIVE REMUNERATION

The total remuneration paid to directors and senior officers of the companies (defined by the Alberta Securities Act as the five highest paid employees) amounted to \$139,098 (1973 — \$102,545).

10. INTEREST EXPENSE

Interest expense is comprised of

	1974	1973
Long term debt		
7% convertible subordinated debentures	\$ 30,698	\$10,342
Bank production loan	107,476	17,032
	138,174	27,374
Foreign exchange	(5,010)	—
Other	3,071	6,194
	<u>\$136,235</u>	<u>\$33,568</u>

FOUR-YEAR STATISTICAL SUMMARY

Financial	1974	1973	1972	1971*
Gross operating revenue	\$ 673,913	\$ 455,783	\$ 381,935	\$ 246,192
Gross oil and gas income	882,435 ^①	510,496	358,233	266,966
Oil and gas income, after royalties	526,117	367,732	278,764	240,437
Royalties paid	356,318 ^②	142,764	79,469	26,529
Operating costs	49,980	46,605	32,991	25,487
General and administrative expenses	197,175	197,586	138,349	96,247
Interest expense	136,235 ^⑥	33,568	13,918	1,722
Funds generated from operations	351,523	177,619	196,677	98,689
Per common share	0.25	0.13	0.15	0.08
Depletion	113,812	81,218	51,555	32,078
Depreciation	14,216	16,414	14,766	13,957
Deferred Income Taxes	43,817	24,371	45,059	12,832
Net earnings	74,892 ^⑦	51,239	130,356	52,654
Per common share	0.05	0.04	0.10	0.04
Working capital (deficiency)	17,128	(109,232) ^⑤	109,386	83,269
Common shares outstanding	1,408,406	1,380,718	1,272,053	1,267,887
Drilling				
Gross wells drilled	19	46 ^④	19	14
Net wells productive	0.83	9.35	1.05	0.04
Net wells dry	2.97	2.09	2.00	2.28
Production				
Crude oil, gross barrels	141,369 ^③	142,678	116,331	119,276
Daily average, barrels	387	391	319	327
Natural gas, Mcf	103,000	82,000	87,000	89,000
Daily average, Mcf	282	225	238	244
Reserves — proven and probable at year end				
Crude oil, gross barrels	3,382,000	3,522,000	2,550,000	1,873,000
Natural gas, Mcf	4,510	3,273	1,914	1,104
Oil & Gas land holdings				
Gross acres — North America	2,848,000	2,593,000	1,655,000	1,958,000
Gross acres — Overseas	1,334,000	1,334,000	1,334,000	561,000

* Financial summary for 11 months only.

MANAGEMENT'S ANALYSIS OF THE STATISTICAL SUMMARY:

New U.S. production and higher oil and gas prices in Canada resulted in increased oil and gas income in 1974 ^①. The increase was somewhat offset by higher royalty rates ^② and reduced production allowables ^③ in Canada. Development drilling programs in Canada and the U.S. in 1973 significantly increased the number of wells drilled that year ^④ and created a working capital deficiency at year end ^⑤. Long term production loans to replace working capital increased interest expense in 1974 ^⑥. Deferred income taxes and amortization of foreign operations which reduced net earnings in 1974 ^⑦ are discussed in the Notes to Consolidated Financial Statements on pages 12 and 14.

OFFICERS

LAWTON L. CLARK, President
C. DEREK GOULD, Vice President
BRIAN G. McCOMBE, Secretary

DIRECTORS

LAWTON L. CLARK
President, Page Petroleum Ltd.
Amarillo, Texas

C. DEREK GOULD
Vice President, Page Petroleum Ltd.
Calgary, Alberta

GEORGE W. OUGHTRED
Vice-president and Director
Thomson, Kernaghan & Co. Ltd.
Investment Dealers
Toronto, Ontario

BRIAN G. McCOMBE
Barrister and Solicitor, McLaws & Company
Calgary, Alberta

KEY PERSONNEL

JOHN W. MAYES — Exploration Manager
D. GRAHAM CLARKE — Land Manager
JAMES F. COYLE — Chief Accountant

CAPITALIZATION

Authorized 5,000,000 common shares,
No Par Value
Issued Capital — 1,408,486 shares

REGISTERED OFFICE

200 Bradie Building
630 - 6th Avenue South West
Calgary, Alberta
T2P 0S8

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company
Calgary and Toronto

AUDITORS

Collins Love Eddis Valiquette & Barrow
Second Floor, Pacific 66 Plaza
700 - 6th Avenue South West
Calgary, Alberta
T2P 0T8

LEGAL COUNSEL

McLaws & Company
Sixth Floor
407 - 8th Avenue South West
Calgary, Alberta
T2P 1E6

BANKING

The Canadian Imperial Bank of Commerce
309 - 8th Avenue South West
Calgary, Alberta
T2P 2P2

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol "PGE"

SUBSIDIARIES

Page Petroleum Inc.
Incorporated in Delaware, U.S.A.

Page Petroleum (U.K.) Limited
Incorporated in the United Kingdom

Leaf Petroleums Limited
Incorporated in Alberta, Canada



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